

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE  
ASSOCIATION )

Petition for initiation of an investigation of  
the necessity of and the establishment of a  
Universal Service Support Fund in accordance  
with §13-301(d) of the Public Utilities Act )

Docket No. 00-0233

Illinois Commerce Commission On Its Own )

Investigation into the necessity of and, if  
appropriate, the establishment of a Universal  
Support Fund pursuant to Section 13-301(d)  
of the Public Utilities Act. )

Docket No. 00-0335

DIRECT TESTIMONY

OF

GORDON J. KRAUT, JR.

ON BEHALF OF

ONEIDA TELEPHONE EXCHANGE

OFFICIAL FILE

ILL. C. C. 00-0233/0335  
*Oneida Telephone Exchange* 1

April 20, 2001

FILED 6-19-01 *CB*

1   **Q.   Please state your name and business address.**

2   A.   My name is Gordon J. Kraut, Jr. and my business address is 3220 Pleasant Run,  
3       Springfield, Illinois 62707.

4   **Q.   By whom are you employed?**

5   A.   I am the consulting manager with GVNW Consulting, Inc. GVNW Consulting, Inc.'s  
6       principal business is telecommunications consulting for small independent telephone  
7       companies and we have provided consulting services to Oneida Telephone Exchange  
8       for several years.

9   **Q.   Please describe your educational background.**

10  A.   I graduated from Edgewood College in May of 1988 with a Bachelor of Science  
11       Degree in business with an emphasis in accounting. I earned a master's in business  
12       administration from Edgewood College in 1991.

13  **Q.   Please provide your background in telecommunications.**

14  A.   In 1988 I began my telecommunications career with TDS, Inc. as an internal auditor.  
15       In 1993 I was promoted to Senior Internal Auditor and in 1994 I was promoted to  
16       Associate Manager of Accounting in TDS Telcom. Early in 1996 I was promoted to  
17       the position of Manager of Revenue and Earnings in the Government and Regulatory  
18       Affairs Group. I joined GVNW, Inc. on October 20, 1997 and in my current position  
19       I consult with independent telephone companies and provide financial analysis and  
20       management advice in the areas of concern to these companies.

21  **Q.   On what company's behalf is this testimony submitted?**

22  A.   This testimony is submitted on behalf of Oneida Telephone Exchange.

1 **Q. Have you prepared the Illinois Universal Service funding calculations for Oneida**  
2 **Telephone Exchange using the format agreed to by the Staff and the IITA?**

3 **A. Yes, I have. It is attached as Oneida Telephone Exchange Exhibit 1, Schedule 1.01**  
4 **and consists of 3 pages.**

5 **Q. Did you complete Oneida Telephone Exchange Exhibit 1, Schedule 1.01 in**  
6 **accordance with the instructions and based on Oneida Telephone Exchange's**  
7 **ICC Form 23A or other information filed with the Commission for the year**  
8 **ended December 31, 2000?**

9 **A. Oneida Telephone Exchange is a cooperative and, as such, is not required to file ICC**  
10 **form 23A with the Commission. However Oneida Telephone Exchange Exhibit 1,**  
11 **Schedule 1.01, was prepared from Oneida's trial balance for the year ended December**  
12 **31, 2000, prepared by the company's accounting firm.**

13 **Q. Were these entries on Exhibit 1, Schedule 1.01 taken from books and records**  
14 **kept by the company in the normal course of its business and recorded at the**  
15 **time of the event?**

16 **A. Yes.**

17 **Q. Is Oneida Telephone Exchange Exhibit 1, Schedule 1.01 true and correct to the**  
18 **best of your knowledge, information and belief?**

19 **A. Yes it is.**

20 **Q. Based on the responses and content of Oneida Telephone Exchange Exhibit 1,**  
21 **Schedule 1.01, has Oneida Telephone Exchange provided Staff with certain**  
22 **additional documents?**

1 A. Yes. I have provided the Staff with a copy of Oneida Telephone Exchange's  
2 December 31, 2000, Trial Balance which we have requested be treated as  
3 confidential.

4 **Q. Have you provided the requisite information from Oneida Telephone Exchange**  
5 **Exhibit 1, Schedule 1.01 to Mr. Schoonmaker for his use in compiling the**  
6 **composite results for all companies seeking funding in connection with his**  
7 **testimony?**

8 A. Yes, I have.

9 **Q. Does page 1 of Oneida Telephone Exchange Exhibit 1, Schedule 1.01 reflect any**  
10 **adjustments being proposed by Oneida Telephone Exchange?**

11 A. Yes, a non-standard adjustment was made to line 8 reducing the depreciation expense  
12 by \$48,396 and reflecting that total in line 9.

13 **Q. Why did you adjust the operating expense by \$48,396?**

14 A. These related to cable TV and customer premise equipment items. As shown on  
15 Oneida's trial balance in the 6560 accounts, there are three subaccounts, 7991.021  
16 (customer premise depreciation), 7991.060 (cable TV head end depreciation), and  
17 7991.070 (cable TV fiber depreciation) that are all for non-regulated activities. These  
18 items total \$48,396 and have been excluded for earnings purposes.

19 **Q. Did you make any further standard adjustments?**

20 A. Yes. I have made one (1) standard adjustment on Oneida Telephone Exchange  
21 Exhibit 1, Schedule 1.01 on line 14, total operating revenues. The adjustment that  
22 was made is for a true up in an out-of-period Carrier Common Line (CCL) Revenues

1 that Oneida recorded in 2000 financial statements. This is listed as standard  
2 adjustment #3 in Bob Schoonmaker's testimony for out-of-period adjustments. This  
3 adjustment removes \$3,768 out-of-period revenue booked in 2000 and can be found  
4 in account number 5082.200, NECA Prior Period CCL. All adjustments are  
5 summarized in Schedule 1.02.

6 **Q. Based on the format agreed to by the Staff and the IITA, what was Oneida**  
7 **Telephone Exchange's rate of return for the calendar year 2000?**

8 **A. Negative 2½%.**

9 **Q. Does Oneida Telephone Exchange concur with Mr. Schoonmaker's**  
10 **recommendation that its affordable rate be established at the current weighted**  
11 **average rate for residential and business service?**

12 **A. Yes.**

13 **Q. Does that conclude your direct testimony on behalf of Oneida Telephone**  
14 **Exchange?**

15 **A. Yes it does.**

16

**Oneida Telephone Exchange**  
**Illinois Universal Service Funding Calculation**  
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 1,091,306	\$ -	\$ 1,091,306
2	Materials and Supplies Inventory	Page 2, 13-Month Average	20,111		20,111
3	Customer Deposits	Form 23A, P 8, 4040	8,652	-	8,652
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	-	-	-
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			1,102,765
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	548,414	(48,395)	500,019
8	Less: Depreciation Expense	Form 23A, P 13, 6560	192,300	(48,395)	143,905
9	Total WC Operating Expense	line 7 - line 8	356,114	-	356,114
10	WC OE Requirement	line 9 * 45 / 360			44,514
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			44,514
13	Total Rate Base	line 5 + line 12			1,147,279
14	Total Operating Revenues	Form 23A, P 11, Total	584,385	(3,768)	580,617
15	Less: Illinois High Cost Fund		104,885	-	104,885
16	Net Operating Revenues	line 14 - line 15	479,500	(3,768)	475,732
17	Total Operating Expenses	Form 23A, P 14, Total	548,414	(48,395)	500,019
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	4,596	-	4,596
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	(73,510)	44,627	(28,883)
21	Income Tax Expense	line 34			-
22	Net Operating Income	line 20 - line 21			(28,883)
23	Return on Rate Base	line 22 / line 13			-2.52%
24	After-tax Cost of Capital				12.60%
25	Target Net Operating Income	line 24 * line 13			144,557
26	Adj to Achieve Target Return on RB	line 25 - line 22			173,440
27	Gross Revenue Conversion Factor	line 35			1.0000
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			173,440
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			(28,883)
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			-
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			(28,883)
33	Federal Income Tax Expense	line 32 * 34.00%			-
34	Total Imputed Income Tax Expense	line 31 + line 33			-
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.0000

**Oneida Telephone Exchange**  
**Illinois Universal Service Funding Calculation**  
**Based upon ICC Form 23A Report Data for December 31, 2000**  
**Material & Supplies Worksheet and Other Information**

Line #

1	December-99	\$18,661
2	January-00	\$18,661
3	February-00	\$18,661
4	March-00	\$18,661
5	April-00	\$18,661
6	May-00	\$18,661
7	June-00	\$18,661
8	July-00	\$21,803
9	August-00	\$21,803
10	September-00	\$21,803
11	October-00	\$21,803
12	November-00	\$21,803
13	December-00	\$21,803
14	13 Month Average	\$20,111

**Sale/Lease Back Arrangement**

☐  
☐

The company does not have any sale(s)/lease back arrangement.  
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

**Lease Agreement with Affiliates**

☐  
☐

The company does not have any lease agreements with affiliates.  
The company does have lease agreements with affiliates and has provided additional information to staff.

**Trial Balances**

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Oneida Telephone Exchange  
Illinois Universal Service Funding Calculation  
Based upon ICC Form 23A Report Data for December 31, 2000  
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 99,193
2	State Subscriber Line Charges	Trial Balance 12/31/00	
3	State Access Revenues	Trial Balance 12/31/00	\$ 99,044
4	State High Cost Support	Exhibit X, Line 15	\$ 104,885
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 18,535
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 321,657
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 28,254
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 130,132
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 68,576
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 1,839
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 228,801
12	Misc Revenues	Trial Balance 12/31/00	\$ 33,927
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 584,385</u>



Oneida Telephone Exchange  
Summary of Adjustments

Adjustment 6	Dr.	Cr.
Non-Regulated Expense	48,395	
Depreciation Expense		48,395

To record entry to remove non-regulated depreciation expense.

Adjustment 3

Interstate Carrier Common Line Revenue	3,768
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To reverse out of period carrier common line revenues in financials